



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
ADAIR COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 2001

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE ADAIR COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Auditor of Public Accounts has completed the Adair County Fiscal Court audit for fiscal year ended June 30, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Cash balances increased \$231,631 from the beginning of the year, resulting in a cash surplus of \$574,303.

Debt Obligations:

Total bonded debt for the Jail facilities as of June 30, 2001 was \$341,972. Future collections of \$515,160 are needed to pay all bonded debt principal and interest. Capital lease principal payments for the Courthouse Annex and voting machines as of June 30, 2001 was \$482,373. Future interest and principal payments of \$640,905 are needed to meet those obligations.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Jerry Vaughan, Adair County Judge/Executive
Members of the Adair County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Adair County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Adair County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Adair County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001 of Adair County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Jerry Vaughan, Adair County Judge/Executive
Members of the Adair County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated May 2, 2002 on our consideration of Adair County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Adair County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 2, 2002

ADAIR COUNTY OFFICIALS

Fiscal Year Ended June 30, 2001

Fiscal Court Members:

Jerry Vaughan	County Judge/Executive
Roger Stephens	Magistrate
Wid Harris	Magistrate
Tony Loy	Magistrate
Fred Sexton	Magistrate
Junior Brown	Magistrate
Joe Rogers	Magistrate
Terry Farris	Magistrate

Other Elected Officials:

Jennifer Hutchison	County Attorney
William Knight	Jailer
Ann Melton	County Clerk
Bill Ballou	Circuit Court Clerk
Ralph Curry	Sheriff
William Feese	Property Valuation Administrator
Rick Wilson	Coroner

Appointed Personnel:

Larry Dudley	County Treasurer
Gale Cowan	Deputy Judge/Executive
Lisa Lee	Personnel/Payroll Clerk
Jobe Darnell	Road Supervisor
Mary Allender	911 Administrator

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STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

ADAIR COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

Assets and Other Resources

Assets

General Fund Type

General Fund:			
Cash	\$	87,442	
Road and Bridge Fund:			
Cash		37,576	
Jail Fund:			
Cash		9,771	
Local Government Economic Assistance Fund:			
Cash		17,266	
Solid Waste Recycling Fund:			
Cash		30,557	
Enhanced 911 Fund:			
Cash		97,912	
Voted Public Health Facilities Fund:			
Cash		293,779	
Natural Gas Franchise Escrow Fund:			
Cash (Note 8)		10,000	
Road Escrow Fund:			
Cash (Note 9)		1,600	
Payroll Revolving Account - Cash		<u>4,059</u>	\$ 589,962

Other Resources

General Fund:			
Amounts to be Provided in Future Years for KACO			
Lease Trust Obligations - Principal (Note 5)	\$	482,373	
Jail Fund:			
Amounts to be Provided in Future Years for Jail Capital			
Lease Obligations - Principal (Note 4)		<u>341,972</u>	<u>824,345</u>
Total Assets and Other Resources			<u>\$ 1,414,307</u>

The accompanying notes are an integral part of the financial statements.

ADAIR COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Liabilities and Fund Balances

Liabilities

General Fund Type

General Fund:

KACO Lease Trust Obligation - Lease Payments (Note 5)	\$	482,373	
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Jail Fund:

Capital Lease Obligation - Bond Principal Payments (Note 4)		341,972	
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Payroll Revolving Account		<u>4,059</u>	\$ 828,404
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Fund Balances

Reserved:

Solid Waste Recycling Fund	\$	30,557	
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Enhanced 911 Fund		97,912	
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Voted Public Health Facilities Fund		293,779	
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Natural Gas Franchise Escrow Fund - Cash (Note 8)		10,000	
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Road Escrow Fund - Cash (Note 9)		<u>1,600</u>	433,848
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Unreserved:

General Fund Type

General Fund	\$	87,442	
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Road and Bridge Fund		37,576	
----------------------	--	--------	--

Jail Fund		9,771	
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Local Government Economic Assistance Fund		<u>17,266</u>	<u>152,055</u>
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Total Liabilities and Fund Balances			<u>\$ 1,414,307</u>
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The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

ADAIR COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 2001

	General Fund Type				
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
<u>Cash Receipts</u>					
Schedule of Operating Revenue	\$ 3,102,079	\$ 1,079,175	\$ 1,230,763	\$ 406,662	\$ 52,631
Transfers In	744,551	226,500	170,000	306,000	
Kentucky Advance Revenue Program	977,500	766,300	211,200		
Lease-Purchase Proceeds	15,120	15,120			
Total Cash Receipts	<u>\$ 4,839,250</u>	<u>\$ 2,087,095</u>	<u>\$ 1,611,963</u>	<u>\$ 712,662</u>	<u>\$ 52,631</u>
<u>Cash Disbursements</u>					
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 2,791,618	\$ 687,579	\$ 1,185,352	\$ 682,972	\$ 44,557
Unbudgeted Expenditures:					
Grant Administrative Cost					
Debris Removal	2,550				
Fireworks	3,000				
Transfers Out	744,551	518,051	211,500		
Bonds:					
Principal Paid	14,940			14,940	
Borrowed Money Repaid	33,460	33,460			
Kentucky Advance Revenue Program Repaid	977,500	766,300	211,200		
Total Cash Disbursements	<u>\$ 4,607,619</u>	<u>\$ 2,005,390</u>	<u>\$ 1,608,052</u>	<u>\$ 697,912</u>	<u>\$ 44,557</u>
Excess of Cash Receipts Over Cash Disbursements	\$ 231,631	\$ 81,705	\$ 3,911	\$ 14,750	\$ 8,074
Cash Balance - July 1, 2000	342,672	5,737	33,665	(4,979)	9,192
Cash Balance - June 30, 2001	<u>\$ 574,303</u>	<u>\$ 87,442</u>	<u>\$ 37,576</u>	<u>\$ 9,771</u>	<u>\$ 17,266</u>

The accompanying notes are an integral part of the financial statements.

The accompanying notes are an integral part of the financial statements.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Adair County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

Additional - Adair County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Adair County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Adair County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Adair County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, Solid Waste Recycling Fund, Enhanced 911 Fund, Russell Heights Renovation Fund, Forest Fire Protection Fund, Fourth of July Fund, and Voted Public Health Facilities Fund.

2) Capital Projects Fund Type

Capital Projects Fund Type accounts for financial resources to be used for the acquisition of major capital infrastructure such as water lines. The Community Development Block Grant Fund is reported as a Capitol Project Fund Type.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Adair County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Russell Heights Renovation Fund, Community Development Block Grant Fund, Voted Public Health Facilities Fund and the Fourth of July Fund. The Department for Local Government does not require the Voted Public Health Facilities Fund to be budgeted. However, a formal budget should have been adopted for the Russell Heights Renovation Fund, Community Development Block Grant Fund and Fourth of July Fund.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the Westlake Regional Hospital is considered a related organization of Adair County Fiscal Court.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2001, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

ADAIK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 4. Long-Term Participation Agreement

The Kentucky Local Correctional Facilities Construction Authority, an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issues revenue bonds for the purpose of construction and reconstruction of jail facilities. The Authority issued \$1,911,326 of revenue bonds at various interest rates (7.10% through 10.625%), of which the county has agreed to pay \$486,577 principal and a proportional share of interest on the issue. Revenue bonds outstanding as of June 30, 2001, totaled \$341,972. Bond principal and interest requirements due in the next five years and thereafter are:

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>
2002	\$ 21,180	\$ 15,887
2003	20,141	16,895
2004	19,036	17,966
2005	17,861	19,105
2006	16,611	20,317
Thereafter	<u>78,359</u>	<u>251,802</u>
Totals	<u>\$ 173,188</u>	<u>\$ 341,972</u>

Note 5. Lease-Purchase Agreements

A. Capital Leases

1. Courthouse Annex Building

The county entered into a lease-purchase agreement with Kentucky Association of Counties Leasing Trust (KACoLT) to finance the purchase of land and the construction of a courthouse annex building. The agreement requires 240 monthly payments and an annual principal payment to be paid in full January 2012. Principal outstanding as of June 30, 2001 was \$441,000. Lease principal and interest requirements due in the next five years and thereafter are:

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>
2002	\$ 24,210	\$ 30,000
2003	22,468	32,000
2004	20,637	33,000
2005	18,725	35,000
2006	16,700	37,000
Thereafter	<u>50,107</u>	<u>274,000</u>
Totals	<u>\$ 152,847</u>	<u>\$ 441,000</u>

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 5. Lease-Purchase Agreements (Continued)

A. Capital Leases (Continued)

2. Voting Machines

The county entered into a lease-purchase agreement with Kentucky Association of Counties Leasing Trust (KACoLT) to finance the purchase of voting machines. The agreement requires 120 monthly payments and will be paid in full November 20, 2007. Principal outstanding as of June 30, 2001 was \$41,373. Lease principal and interest requirements due in the next five years and thereafter are:

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>
2002	\$ 1,551	\$ 5,710
2003	1,388	5,973
2004	1,074	6,247
2005	819	6,534
2006	552	6,834
Thereafter	301	10,075
Totals	<u>\$ 5,685</u>	<u>\$ 41,373</u>

B. Operating Leases

The county has entered into the following operating lease-purchase agreements:

<u>Description</u>	<u>Purchase Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>
General Fund:				
Voting Machines	11/10/2000	11/20/2003	4.53%	\$ 12,337
Jail Fund:				
Jail Roof	3/14/2000	3/20/2004	4.51%	\$ 24,621

Note 6. Insurance

For the fiscal year ended June 30, 2001, Adair County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 7. Jail Canteen Fund

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations.

During the fiscal year ending June 30, 2001, the Adair County Jail Canteen received \$65,604 and expended \$59,828. The Jail Canteen reported June 30 ending balances of \$17,099 and \$22,875 for 2000 and 2001 respectively.

Note 8. Natural Gas Escrow Fund

On February 13, 1996, Adair County Fiscal Court approved Environmental Gas Company, Inc. (EGC) to be a non-exclusive gas franchise. The court required EGC to pay a deposit in the amount of \$10,000 to be placed in an escrow account until the Kentucky Public Service Commission grants a utility license and/or certificate of public convenience and necessity to construct for the franchise to EGC. The balance of the natural gas escrow fund as of June 30, 2001, is \$10,000.

Note 9. Road Escrow Fund

During the year, Adair County Fiscal Court established a Road Escrow Fund. This fund was established from the receipt of \$1,600 from a taxpayer to pay for the road improvement of a right of way on Athleta Trace. In the event the improvement should cost less than \$1,600, the remainder will be returned to the taxpayer. The balance of the road escrow fund as of June 30, 2001, is \$1,600.

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COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

ADAIR COUNTY
 COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 2001

<u>Budgeted Funds</u>	Budgeted Operating Revenue	Actual Operating Revenue	Over (Under) Budget
<u>General Fund Type</u>			
General Fund	\$ 1,228,541	\$ 1,079,175	\$ (149,366)
Road and Bridge Fund	1,193,684	1,230,763	37,079
Jail Fund	475,798	406,662	(69,136)
Local Government Economic Assistance Fund	44,318	52,631	8,313
Solid Waste Recycling Fund	37,000	33,891	(3,109)
Enhanced 911 Fund	219,003	236,938	17,935
Forest Fire Protection Fund	2,586	2,010	(576)
Totals	<u>\$ 3,200,930</u>	<u>\$ 3,042,070</u>	<u>\$ (158,860)</u>

Reconciliation

Total Budgeted Operating Revenue Above	\$ 3,200,930
Add: Budgeted Prior Year Surplus	100,125
Other Financing Sources	992,620
Less: Other Financing Uses	<u>(1,033,861)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures	<u>\$ 3,259,814</u>

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SCHEDULE OF OPERATING REVENUE

ADAIR COUNTY
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 2001

Revenue Categories	Totals (Memorandum Only)	Governmental Fund Types	
		General Fund Type	Capitol Project Fund Type
Taxes	\$ 618,500	\$ 618,500	\$
In Lieu Tax Payments	12,442	12,442	
Excess Fees	145,595	145,595	
Licenses and Permits	12,329	12,329	
Intergovernmental Revenues	1,975,795	1,935,795	40,000
Charges for Services	61,419	61,419	
Miscellaneous Revenues	238,534	238,534	
Interest Earned	37,465	37,465	
Total Operating Revenue	<u>\$ 3,102,079</u>	<u>\$ 3,062,079</u>	<u>\$ 40,000</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

ADAIR COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2001

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 471,483	\$ 387,023	\$ 84,460
Protection to Persons and Property	899,430	813,139	86,291
General Health and Sanitation	290,460	38,924	251,536
Social Services	3,000	1,572	1,428
Recreation and Culture	25,700	25,000	700
Roads	1,298,753	1,116,760	181,993
Airports	7,700	7,700	
Debt Service	65,287	62,820	2,467
Administration	198,001	338,680	(140,679)
Total Operating Budget - All General Fund Types	\$ 3,259,814	\$ 2,791,618	\$ 468,196
Other Financing Uses:			
Kentucky Local Correctional Facilities			
Construction - Principal on Bond	14,940	14,940	
Borrowed Money-			
Kentucky Advanced Revenue			
Program - Principal	977,500	977,500	
Capital Lease Agreement-			
Principal on Lease	41,421	33,460	7,961
TOTAL BUDGET - ALL GENERAL FUND TYPES	<u>\$ 4,293,675</u>	<u>\$ 3,817,518</u>	<u>\$ 476,157</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Jerry Vaughan, Adair County Judge/Executive
Members of the Adair County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Adair County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated May 2, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Adair County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Adair County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 2, 2002

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM

ADAIR COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001


CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
ADAIR COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Adair County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in black ink, appearing to read "Jerry Vaughan", written over a horizontal line.

Jerry Vaughan
County Judge/Executive

A handwritten signature in black ink, appearing to read "Larry Dudley", written over a horizontal line.

Larry Dudley
County Treasurer

